

Department of Revenue Fiscal Note

Bill Number: 5980 E S SB	Title: B&O tax credits	Agency: 140-Department of Revenue
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2022	FY 2023	2021-23	2023-25	2025-27
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax		(13,000,000)	(13,000,000)	(118,100,000)	(129,000,000)
Total \$		(13,000,000)	(13,000,000)	(118,100,000)	(129,000,000)

Estimated Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years		1.6	0.8	0.4	
Account					
GF-STATE-State 001-1		188,800	188,800	111,100	7,200
Total \$		188,800	188,800	111,100	7,200

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact . Factors impacting the precision of these estimates , and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia , complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia , complete this page only (Part I).
- ☒ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

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Agency Preparation: Melissa Howes	Phone: 603-534-1518	Date: 03/07/2022
Agency Approval: Valerie Torres	Phone: 603-534-1521	Date: 03/07/2022
OFM Review: Cheri Keller	Phone: (603) 584-2207	Date: 03/07/2022

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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Note: This fiscal note reflects language in ESSB 5980, 2022 Legislative Session.

COMPARISON BETWEEN THE ENGROSSED SUBSTITUTE BILL AND THE SUBSTITUTE BILL:

This proposal removes the language that excludes the credit from tax preference expiration dates and reporting requirements.

CURRENT LAW:

B&O tax is measured on the value of products, gross proceeds of sale, or gross income of the business. Businesses with a B&O tax liability may be eligible to claim a small business B&O tax credit against the amount of B&O tax otherwise due.

For businesses reporting at least 50% of their taxable activity under the service and other activities, gambling contests of chance, for-profit hospitals, and/or scientific research and development B&O tax classifications, the maximum credit for a reporting period is \$70 multiplied by the number of months in the reporting period.

For all other businesses, the maximum credit for a reporting period is \$35 multiplied by the number of months in the reporting period.

Businesses who meet all of the following criteria may not be required to file a monthly, quarterly, or annual return with the Department of Revenue (Department):

- The gross income of the business subject to B&O tax is less than \$28,000 per year, or \$46,667 per year for businesses reporting at least 50% of their taxable activities under the service and other activities, contests of chance, for-profit hospitals, and/or scientific research and development B&O tax classifications.
- The gross income of the business subject to the public utility tax is less than \$24,000 per year.
- No requirement to collect or pay retail sales tax.
- No requirement to collect or pay any other tax or fee to the Department.

PROPOSAL:

This proposal increases the maximum amount of small business credit for a reporting period to :

- \$160 for businesses reporting at least 50% of their taxable activities under the service and other activities, contests of chance, for-profit hospitals, and/or scientific research and development B&O tax classifications, and
- \$55 for all other businesses.

This proposal also increases the B&O tax filing threshold to \$125,000 a year.

EFFECTIVE DATE:

This bill applies to reporting periods beginning on or after January 1, 2023.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:

- This proposal results in a tax reduction for an estimated 125,000 taxpayers.
- The small business credit will expire January 1, 2033, because the preference does not have a stated expiration date (RCW 82.32.805).

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- This new tax preference does not require an annual tax performance report because the bill does not reference industry competitiveness or job creation (RCW 82.32.808) and does not specify that a report is required (RCW 82.32.534).
- The tax impact from the proposed small business credit increases will begin in Fiscal Year 2023. There will be three months of impact for quarterly taxpayers and five months of impact for monthly taxpayers due to the January 1, 2023, effective date.
- The tax impact from the proposed threshold increase will begin in Fiscal Year 2024. The growth rates from the Economic and Revenue Forecast Council November 2021 forecast were used to deflate the threshold of \$125,000 to the Fiscal Year 2021 base year amount in order to estimate revenues for Fiscal Year 2024 and forward.
- Most of the tax impact will be to the General Fund. However, there may also be minimal impacts to the Problem Gambling and Forest and Fish Support Accounts.
- Revenues as estimated assume passage of the proposal by March 10, 2022, allowing a full nine months to implement.

DATA SOURCES:

- Department of Revenue excise tax return data
- Economic and Revenue Forecast Council November 2021 forecast

REVENUE ESTIMATES

This bill decreases state revenues by an estimated \$13 million in the five months of impacted collections in Fiscal Year 2023, and by \$57.8 million in Fiscal Year 2024, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2022 -	\$ 0
FY 2023 -	(\$ 13,000)
FY 2024 -	(\$ 57,800)
FY 2025 -	(\$ 60,300)
FY 2026 -	(\$ 63,100)
FY 2027 -	(\$ 65,900)

Local Government, if applicable (cash basis, \$000): None.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing

ASSUMPTIONS:

This bill affects 276,000 taxpayers that will utilize the new small business credit structure or have taxable activity below the new threshold level.

FIRST YEAR COSTS:

The Department will not incur costs in Fiscal Year 2022.

SECOND YEAR COSTS:

The Department will incur total costs of \$188,800 in Fiscal Year 2023. These costs include :

Labor Costs – Time and effort equates to 1.58 FTEs.

- Amend two administrative rules.
- Review and update account information, answer phone calls and taxpayer questions, and assist taxpayers with tax return preparation.

- Create a special notice and identify publications that need to be created or updated on the Department's website.
- Process returns, payments, and all associated work items, including issuing assessments for return errors.
- Examine accounts and make corrections as necessary.
- Attend implementation meetings, conduct system testing, and documentation.
- Set up, program, and test computer system changes.

Object Costs - \$31,200.

- Print and mail a special notice to affected paper filers.
- Print and mail small business credit workpapers to new and existing taxpayers.
- Computer system changes, including contract programming.
- System costs to process refund warrants.

ONGOING COSTS:

Ongoing costs for the 2023-25 Biennium equal \$111,100 and include similar activities described in the second-year costs. Time and effort equate to 0.4 FTEs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years		1.6	0.8	0.4	
A-Salaries and Wages		93,200	93,200	45,000	
B-Employee Benefits		33,600	33,600	16,200	
C-Professional Service Contracts		17,600	17,600		
E-Goods and Other Services		33,500	33,500	47,800	7,200
J-Capital Outlays		10,900	10,900	2,100	
Total \$		\$188,800	\$188,800	\$111,100	\$7,200

III. B - Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
EMS BAND 4	122,633		0.0	0.0		
EXCISE TAX EX 2	54,108		0.3	0.2	0.3	
EXCISE TAX EX 3	59,688		0.1	0.1	0.2	
MGMT ANALYST4	70,956		0.4	0.2		
MGMT ANALYST5	78,408		0.1	0.1		
TAX INFO SPEC 1	43,392		0.4	0.2		
TAX INFO SPEC 4	64,332		0.2	0.1		
TAX POLICY SP 2	72,756		0.0	0.0		
TAX POLICY SP 3	82,344		0.0	0.0		
TAX POLICY SP 4	88,644		0.0	0.0		
WMS BAND 3	104,295		0.0	0.0		
Total FTEs			1.6	0.8	0.4	

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

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NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules .

Should this legislation become law, the Department will use the expedited process to amend WAC 458-20-101, titled: "Tax registration and tax reporting," and WAC 458-20-104, titled: "Small business tax relief based on income of business."

Persons affected by this rule making would include businesses who qualify for the small business credit.